

SANTEE
PUBLIC FINANCING AUTHORITY
ANNUAL AUDIT REPORT
Year Ended June 30, 2015

Santee Public Financing Authority
Annual Audit Report
Year Ended June 30, 2015

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Santee Public Financing Authority
Santee, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Santee Public Financing Authority (the "Authority"), a component unit of the City of Santee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Authority, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2015, on our consideration of the City of Santee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Riverside, California
December 29, 2015

BASIC FINANCIAL STATEMENTS

Santee Public Financing Authority
Statement of Net Position
June 30, 2015

	<u>Governmental Activities</u>
ASSETS	
Leases Receivable	\$ 730,000
Interest Receivable	<u>11,283</u>
Total Assets	<u>741,283</u>
LIABILITIES	
Interest Payable	11,283
Noncurrent Liabilities:	
Due Within One Year	175,000
Due in More Than One Year	<u>555,000</u>
Total Liabilities	<u>741,283</u>
NET POSITION	
Unrestricted	<u>-</u>
Total Net Position	<u><u>\$ -</u></u>

The accompanying notes are an integral part of this statement.

Santee Public Financing Authority
Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Interest and Fiscal Charges	\$ 30,448	\$ -	\$ 30,448	\$ -	\$ -
Total Governmental Activities	<u>\$ 30,448</u>	<u>\$ -</u>	<u>\$ 30,448</u>	<u>\$ -</u>	<u>-</u>
General Revenues:					
Investment Earnings					<u>-</u>
Total General Revenues					<u>-</u>
Change in Net Position					-
Net Position at Beginning of Year					<u>-</u>
Net Position at End of Year					<u>\$ -</u>

The accompanying notes are an integral part of this statement.

Santee Public Financing Authority
Balance Sheet
Governmental Fund
June 30, 2015

	Debt Service
ASSETS	
Interest Receivable	\$ 11,283
Total Assets	<u>\$ 11,283</u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts Payable	\$ -
Total Liabilities	<u>-</u>
Fund Balance:	
Restricted for Debt Service	<u>11,283</u>
Total Fund Balance	<u>11,283</u>
Total Liabilities and Fund Balance	<u><u>\$ 11,283</u></u>

The accompanying notes are an integral part of this statement.

Santee Public Financing Authority
Reconciliation of the Balance Sheet of the Governmental Fund
to the Statement of Net Position
June 30, 2015

Fund Balance of the Governmental Fund	\$	11,283
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Long-term assets which are considered to be current financial resources are not reported in the governmental fund:

Leases Receivable		730,000
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund:

Interest Payable		(11,283)
Long-term Liabilities		(730,000)
		(730,000)

Net Position of Governmental Activities	\$	-
		-

Santee Public Financing Authority
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
Year Ended June 30, 2015

	Debt Service
REVENUES	
Lease Revenue	\$ 165,000
Investment Earnings	30,448
	<hr/>
Total Revenues	195,448
	<hr/>
EXPENDITURES	
Debt Service:	
Principal Retirement	165,000
Interest and Fiscal Charges	32,855
	<hr/>
Total Expenditures	197,855
	<hr/>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,407)
Fund Balance, Beginning of Year	13,690
	<hr/>
Fund Balance, End of Year	\$ 11,283
	<hr/> <hr/>

The accompanying notes are an integral part of this statement.

Santee Public Financing Authority
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of the Governmental Fund to the Statement of Activities
Year Ended June 30, 2015

Net Change in Fund Balance - Total Governmental Fund	\$	(2,407)
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Amounts reported for governmental activities in the statement of activities are different because:

The governmental fund reports the receipt of lease principal as revenue, but the repayments of the principal are included as a reduction of the lease receivable in the Statement of Net Position.

Principal Lease Payments		(165,000)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Principal Repayments		165,000
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Some expenses reported in the Statement of Net Position do not require the use of current financial resources and are not reported as governmental fund expenditures.

Interest and Fiscal Charges		2,407
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Change in Net Position of Governmental Activities	\$	-
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Santee Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2015

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

The Santee Public Financing Authority (the "Authority") is a joint powers authority organized by the City of Santee (the "City") and the Santee Community Development Commission (Commission) on July 11, 1990, under the laws of the State of California. On February 1, 2012, the Santee Community Development Commission was dissolved by legislation from the California State Legislature and a decision by the California Supreme Court. The City of Santee is the Successor Agency of the Santee Community Development Commission which oversees the remaining activities of the former Santee Community Development Commission. The Authority is a component unit of the City. The Authority was organized to provide financial assistance to the City for public improvements benefiting the residents of the City and the surrounding areas. Administrative and related normal business expenses incurred in the day-to-day operations of the Authority are provided by the City and are not included in the accompanying financial statements. Management believes that such expenses are not material to the Authority's operations.

The Santee Public Financing Authority is an integral part of the reporting entity of the City of Santee. The funds of the Authority have been included within the scope of the financial statements of the City because the City Council of the City of Santee is the governing board and has financial accountability over the operations of the Authority. Only the financial activity of the Authority is included herein and these financial statements, therefore, do not purport to represent the financial position or results of operations of the City of Santee.

B) Basis of Presentation

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies reflected in the financial statements are summarized as follows:

Government-wide Statements: The Government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government (the Authority). For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All Authority activities are governmental; no business-type activities are reported in the statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are expenses that are clearly identifiable with a specific program, project, function or segment. Program revenues of the Authority include: 1) charges

Santee Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2015

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B) Basis of Presentation - Continued

to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items that are properly not included among program revenues are reported instead as general revenues.

Fund Financial Statements: Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds. Currently, the Authority only has one governmental fund.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the providers have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Taxes, intergovernmental revenues, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual, and are therefore recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Authority.

The Authority reports the following major governmental fund:

The *Debt Service Fund* is used to account for the accumulation of resources for, and the repayment of, long-term debt principal, interest and related costs.

Santee Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2015

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B) Basis of Presentation - Continued

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Direct expenses have not been eliminated from the functional categories; indirect expenses and internal payments have been eliminated.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then use unrestricted resources as they are needed.

C) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. Currently, the Authority does not report any deferred outflows.

In addition to liabilities, the statement of net position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. Currently, the Authority does not report any deferred inflows.

D) Net Position

GASB No. 63 requires that the difference between assets, liabilities and deferred outflows/inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position classified as net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding principal of related debt. Restricted net position is the net position that has external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions, or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

E) Fund Equity

Fund balance in governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for

Santee Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2015

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E) Fund Equity - Continued

which amounts in those funds can be spent. The Authority considers restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance - Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact.

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions or enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority.

Assigned Fund Balance - Amounts that are constrained by the Authority's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body, or by an official to whom the authority has been given.

Unassigned Fund Balance - These are negative balances in the Debt Service Fund.

F) Budgets and Budgetary Accounting

Formal budgets are not required for the Debt Service Fund; therefore, no statement of revenues, expenditures and changes in fund balance - budget and actual is presented.

G) Use of Estimates

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions made by Management. Actual results could differ from those amounts.

Santee Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2015

2) LEASES RECEIVABLE

On January 25, 2005, the Authority issued \$2,180,000 of Lease Revenue Bonds, 2005 Series, to provide funds for the advance refunding of \$2,065,000 Certificates of Participation (1993 Certificates) and to finance various capital improvements located throughout the geographic boundaries of the City. The Authority entered into a lease agreement with the City for the right to use and occupy City Hall facilities. These lease payments are used to repay the bonds. The lease receivable at June 30, 2015 is \$730,000.

The City agrees to pay semiannual lease payments as rent for the use and occupancy of the City Hall facility. Lease payments are payable each February 1 and August 1 in amounts sufficient to pay the principal and interest coming due on the bonds.

3) LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year	Due in More Than One Year
2005 Lease						
Revenue Bonds	\$ 895,000	\$ -	\$ 165,000	\$ 730,000	\$ 175,000	\$ 555,000
Total Long-term						
Liabilities	\$ 895,000	\$ -	\$ 165,000	\$ 730,000	\$ 175,000	\$ 555,000

Lease Revenue Bonds

On January 25, 2005, the Santee Public Financing Authority issued 2005 Lease Revenue Bonds (Bonds) in the amount of \$2,180,000. The Bonds were issued for the purpose of refunding \$2,065,000 of outstanding 1993 Revenue Bonds issued by the Santee Public Financing Authority and to finance various capital improvements located throughout the geographic boundaries of the City. The Bonds are special obligations of the Authority payable from revenues consisting primarily of lease payments to be made by the City to the Authority pursuant to a lease agreement for the right to use and occupy City Hall facilities.

Santee Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2015

3) LONG-TERM LIABILITIES - Continued

Future debt requirements for the Revenue Bonds are as follows:

Year Ending June 30,	2005 Lease Revenue Bonds	
	Principal	Interest
2016	\$ 175,000	\$ 27,080
2017	180,000	20,780
2018	185,000	14,300
2019	190,000	7,363
Total	<u>\$ 730,000</u>	<u>\$ 69,523</u>